

Message Text

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ACTION TRSE-00

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02

LAB-04 SIL-01 OMB-01 AGR-01 L-03 /081 W

-----030316 101901Z /40

R 101532Z AUG 78

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC 7385

INFO AMEMBASSY KINGSTON

AMEMBASSY BRIDGETOWN

AMEMBSSY PORT OF SPAIN

AMEMBASSY PARAMARIBO

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E.O. 11652: N/A

TAGS: ECON, EAID, IMF, GY

SUBJECT: PRIME MINISTER BURNHAM ANNOUNCES IMF AGREEMENT

REF: A. GEORGETOWN 2142, B. STATE 159228

SUMMARY: IN AN AUGUST 5 PRESS CONFERENCE, PRIME MINISTER BURNHAM ANNOUNCED THAT GUYANA SUCCESSFULLY CONCLUDED NEGOTIATIONS WITH THE IMF FOR A ONE YEAR STAND-BY AGREEMENT WHICH WILL PROVIDE GUYANA WITH G\$48 MILLION. HE GAVE ASSURANCES THAT THERE WOULD BE NO DEVALUATION, STATING THAT THE AGREEMENT WOULD GIVE GUYANA ACCESS TO OTHER EXTERNAL CREDITS, SUCH AS THE CARIBBEAN DEVELOPMENT FUND (CDF) AND COMMERCIAL LOANS TO FINANCE DEVELOPMENT. HE MENTIONED SEVERAL PERFORMANCE CRITERIA, INCLUDING A 5 PERCENT REAL RATE OF FROWTH, AN IMPROVEMENT IN THE BALANCE OF PAYMENT DEFICIT, A REDUCTION IN ARREARS TO FOREIGN SUPPLIERS, AND CEILINGS ON LOCAL AND EXTERNAL CREDIT TO THE PUBLIC SECTOR. HE DECLARED THAT TARGETS WERE ACHIEVABLE PROVIDED THAT A HIGH LEVEL OF ECONOMIC PERFORMANCE IS SUSTAINED AND THAT THE PUBLIC SECTOR MAINTAINS RIGOROUS FINANCIAL DISCIPLINE. HE ANNOUNCED A SHART CUTBACK IN THE CONSUMER SUBSIDY ON SUGAR. END SUMMARY.

1. IN AN AUGUST 5 PRESS CONFERENCE BROADCAST TO THE NATION,

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PRIME MINISTER FORBES BURNHAM ANNOUNCED THAT HIS GOVERNMENT HAD CONCLUDED NEGOTIATIONS WITH THE IMF FOR A ONE YEAR STAND-BY CREDIT ARRANGEMENT, INCLUDING G\$19.5 MILLION UNDER GUYANA'S SECOND CREDIT TRANCHE AND G\$27.3 MILLION UNDER THE COMPENSATORY FACILITY (US\$1.00 EQUALS G\$2.55). HE EMPHASIZED THAT DURING THE LENGTHY NEGOTIATIONS GUYANA SUCCESSFULLY RESISTED PRESSURES TO DEVALUE.

2. WHILE CONCEDED THAT THE CREDITS INVOLVED ARE NOT LARGE, BURNHAM EXPLAINED THAT THE IMF AGREEMENT WOULD MAKE IT POSSIBLE TO RAISE ADDITIONAL FUNDS ON BOTH COMMERCIAL AND CONCESSIONARY TERMS TO FINANCE DEVELOPMENT. IN AN APPARENT ALLUSION TO THE BAUXITE INDUSTRY DEVELOPMENT COMPANY (BIDCO) G\$80 MILLION REFINANCING SCHEME, HE SAID THAT STATE CORPORATIONS WOULD FIND IT EASIER TO BORROW IN OVERSEAS MONEY MARKETS OR TO REFINANCE EXISTING LOANS. HE CITED THE G\$50 MILLION TO BE MADE AVAILABLE UNDER THE CDF AS AN EXAMPLE OF CONCESSIONARY ASSISTANCE LINKED TO THE IMF AGREEMENT. HE DECLARED THAT LOCAL COST COMPLEMENTARY FINANCING HAD BEEN PROVIDED FOR MANY PROJECTS INCLUDING THE TAPAKUMA, ABARY RIVER AND BLACK BUSH POLDER IRRIGATION SCHEMES. HE ADDED THAT "IT WILL NOW BE POSSIBLE TO PROCEED WITH NEW PROJECTS", SUCH AS THE ANNA REGINA HOLIDAY FACILITY, AN OIL PALM PROJECT AND AN EXPANSION OF A FISH PORT COMPLEX, FOR WHICH THE GOVERNMENT IS SEEKING FINANCING.

3. BURNHAM THEN DISCUSSED TARGETS SET FOR THE ECONOMY UNDER THE IMF AGREEMENT. SPECIFICS COVERED WERE A) A 5 PERCENT REAL RATE OF GROWTH IN 1978 TO BRING THE ECONOMY BACK UP TO THE 1976 OVERALL PRODUCTION LEVEL, B) AN INCREASE IN THE "SURPLUS" (READ RETAINED EARNINGS) OF STATE CORPORATIONS FROM G\$76 MILLION IN 1977 TO G\$130 MILLION 1978, C) A REDUCTION IN THE BALANCE OF PAYMENT GAP TO 10 PERCENT OF GNP, DOWN FROM 23 PERCENT IN 1977 AND 32 PERCENT IN 1976, AND D) A REDUCTION IN ARREARS TO FOREIGN SUPPLIERS FROM G\$100

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MILLION AT THE BEGINNING OF 1978 TO G\$75 MILLION BY THE END OF THE YEAR, WITH A CONCURRENT INCREASE IN GROSS FOREIGN RESERVES FROM G\$60 MILLION TO G\$100 MILLION. HE SAID THAT EXPORT OF GOODS AND SERVICES WOULD INCREASE 17 PERCENT FROM G\$706 MILLION TO G\$803 MILLION, MOSTLY BY A RETURN TO NORMAL PRODUCTION LEVELS IN THE SUGAR INDUSTRY, WHICH WAS HARD HIT BY A 135 DAY STRIKE IN 1977. AT THE SAME TIME, IMPORTS OF GOODS AND SERVICES WOULD BE HELD TO G\$950 MILLION, ABOUT THE SAME AS 1977.

4. BURNHAM ALSO REVEALED THAT THE BALANCE OF PAYMENT TARGET SET BY THE IMF INCLUDES CEILINGS ON LOCAL BANK CREDIT TO THE PUBLIC SECTOR, AS WELL AS FOREIGN COMMERCIAL CREDIT. HE SAID THAT LIMITS ON SHORT-TERM EXTERNAL CREDITS WOULD OBLIGE THE GOVERNMENT AND THE STATE CORPORATIONS TO SEEK LONG-TERM FINANCING FOR DEVELOPMENT PROJECTS. HE WARNED THAT IF LIMITS ARE EXCEEDED IMF FACILITIES, AS WELL AS OTHER EXTERNAL CREDITS LINKED TO THE IMF AGREEMENT, WOULD BE JEOPARDIZED. HE EXPRESSED CONCERN THAT THE CREDIT CEILING FOR THE PUBLIC SECTOR WOULD BE ENDANGERED, IF THE FINANCIAL PERFORMANCE OF THE STATE CORPORATIONS DOES NOT IMPROVE.

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5. BURNHAM STRESSED THAT REALIZATION OF TARGETS, WHILE FEASIBLE, RELIES HEAVILY ON THE ECONOMIC GROWTH AND A SUBSTANTIAL INCREASE IN PUBLIC SECTOR SAVINGS FOR REINVESTMENT. HE NOTED THAT THE TARGET FOR SAVINGS WOULD DEPEND ON "STRONG FISCAL EFFORTS" TO CONTROL THE GOVERNMENT CURRENT ACCOUNT BUDGET AND THOSE OF THE STATE CORPORATIONS. EXCEPT IN CASES WHERE PUBLIC ENTERPRISES QUALIFY FOR SUBSIDIES BY PROVIDING AN ESSENTIAL SOCIAL SERVICE, SUCH AS THE WATER AUTHORITY, "ALL CORPORATIONS WOULD HAVE TO ACHIEVE AND MAINTAIN FINANCIAL VIABILITY". PRICES WOULD HAVE TO BEAR A DIRECT RELATION TO COST. HE ANNOUNCED THAT THE PRICE OF SUGAR FOR THE LOCAL MARKET WOULD INCREASE FROM 6.5 CENTS (G) TO 12.5 CENTS (G) PER POUND TO HELP COVER THE ESTIMATED 32 CENTS (G) COST PER POUND, RESULTING IN A G\$4 MILLION SAVINGS TO THE STATE SUGAR CORPORATION.

6. FINALLY, BURNHAM MENTIONED THAT TO ACHIEVE THE SAVINGS RATE TARGET, HOUSEHOLD SAVINGS WOULD HAVE TO INCREASE, ADDING THAT "UNLESS WE DO SO, WE ARE LIKELY TO CREATE AN INFLATIONARY SITUATION WHICH WILL UNDERMINE ALL OUR OTHER EFFORTS."

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7. THE IMF AGREEMENT HAS BEEN USED BY THE MOSCOW-ORIENTED OPPOSITION PEOPLES' PROGRESSIVE PARTY (PPP) DAILY, THE "MIRROR", AS A PEG TO REPEAT IS CHORUS OF CRITICISMS OF THE RULING PNC'S ECONOMIC POLICIES. THE AUGUST 2 "MIRROR" LABELED THE IMF LOAN AS A "SMALL SUM" WHICH "CANNOT DO ANYTHING MUCH." THE MIRROR THEREFORE EXPECTS "THAT A MUCH LARGER SUM IS STILL UNDER NEGOTIATION."

8. COMMENT: THE EXISTENCE OF THE IMF AGREEMENT HAS BEEN COMMON KNOWLEDGE FOR SOME TIME NOW. SOME BUSINESSMEN HAD BEEN HOPEFUL THAT THE IMF CREDIT MIGHT LEAD TO A RELAXATION ON IMPORT RESTRICTIONS. THE PRIME MINISTER'S PRESS STATEMENT PUTS THESE ILLUSIONS TO REST. INCREASING AUSTERITY AND A RELIANCE ON SELF-HELP MESURES WILL BE THE ORDER OF THE DAY, AS THE GOVERNMENT STRUGGLES TO MEET IMF CONDITIONS. THE DOUBLING OF THE PRICE OF SUGAR FOR THE LOCAL MARKET MAY BE A HARBINGER OF OTHER PRICE INCREASES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRIME MINISTER, AGREEMENT, AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978GEORGE02566
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780328-0039
Format: TEL
From: GEORGETOWN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780879/aaaacnxu.tel
Line Count: 188
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ead35b65-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 GEORGETOWN 2142, 78 STATE 159228
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1781428
Secure: OPEN
Status: NATIVE
Subject: PRIME MINISTER BURNHAM ANNOUNCES IMF AGREEMENT
TAGS: ECON, EAID, GY, IMF
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ead35b65-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014